

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBCOMMITTEE
136 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

1 and that we also keep in mind that there are probably many
2 different other approaches to the investment purposes for
3 the development, many different ideas and proposals that
4 we should probably at least hear before we make our mind up
5 about what the proper direction is. I'm expressing this
6 because I'm not sure whether we can commit ourselves in any
7 direction. I certainly am not committed in any direction
8 without hearing more advice from more people and having more
9 information, and also having an opportunity to hear from the
10 public.

11 MR. MOTLEY: Mr. Chairman.

12 MR. WOHLFORTH: Yes.

13 MR. MOTLEY: Jamie, I don't think anybody is committed.
14 There isn't going to be any commitment until November 2nd, or
15 3rd, or whatever. I think what we did today was most
16 enlightening. It's probably the initial intellectual exercise
17 to figure out what may happen if certain things do occur,
18 and I think there were some very visionary questions that
19 were asked here. I think when you take it back to brass
20 tacks they put it very well. I mean, what is the mission.
21 I can tell you that as a voter, just as a voter, and you
22 assume that the voter doesn't have the benefit of these dis-
23 cussions that have gone on today and the benefit of this good
24 work, then as a voter you have to take a very strict con-
25 structionist approach, to coin a phrase, and that is that

1 it says -- in the one thing that changed the Constitution it
2 says income producing investment, and I think that's where
3 you have to start from. There isn't any mention in there,
4 and it won't be on the ballot about it, and that's social
5 benefits versus net social costs. There won't be anything
6 in there about subsidies, there won't be anything in there
7 about soft loans, there won't be any of that stuff in there.
8 I think we have to keep that in mind. That's where it's
9 starting from, and that doesn't come for another two or three
10 weeks. I don't mean to say that what we did today -- I mean,
11 we're ahead of the power curve for once, but I think we have
12 to keep that in mind, exactly what the voters are going to
13 be looking at; that's just that one line that appears on the
14 ballot, and that's it.

15 MR. WOHLFORTH: Do we have any more comments on this
16 matter of goals and objectives, or any other comments?

17 MS. FLEISCHER: Yes.

18 MR. WOHLFORTH: Yes, Mrs. Fleischer.

19 MS. FLEISCHER: Well, I am really reluctant to leave
20 the room without some decision on establishing the goals and
21 objectives of the Committee. I would like for us to decide
22 to decide to do that, and I so move.

23 MR. LOVE: To decide to decide?

24 MS. FLEISCHER: I move that we make the next order
25 of business a discussion of and decision upon, if we can do

1 that, the goals and objectives for the Permanent Fund.

2 MR. MOTLEY: Mr. Chairman, is the motion on the floor
3 and open for discussion?

4 MR. WOHLFORTH: I haven't heard a second yet.

5 MR. LOVE: I'll second.

6 MR. MOTLEY: I'll second just for the sake of putting
7 it open for discussion.

8 MR. WOHLFORTH: It's open for discussion.

9 MR. MOTLEY: I think it's a little premature at this
10 stage of the game.

11 MS. FLEISCHER: Well, when are we going to meet next?

12 MR. MOTLEY: Well, I don't know.

13 MS. FLEISCHER: After the election in November?

14 MR. MOTLEY: Believe me, I really think it would be
15 presumptuous of us to come down with all kinds of goals and
16 objectives when there's just a one liner that's going to be
17 on the ballot.

18 MS. FLEISCHER: Well, by the next time we meet we'll
19 know whether we have a task or not.

20 MR. MALONE: Mr. Chairman.

21 MR. LOVE: That's right. I'd just like to say
22 something else, and that is ---

23 MR. WOHLFORTH: Let the Chair recognize Mr. Malone.

24 MR. MALONE: Thank you, Mr. Chairman. As Commissioner
25 Motley expressed himself there, I really have to agree with

1 him. The very creation of this fund in the first place is on
2 the ballot to be decided November 2 by the people of the state,
3 and while I'm quite hopeful the outcome of the election will
4 be positive, I feel it is presumptuous right now to start
5 laying out goals, and I think that is definitely the charge
6 that the Governor gave to this Committee, but I think it
7 would be precipitous to do it right now.

8 MR. WOHLFORTH: Yes, Jamie, you're next.

9 MR. LOVE: I think that this Committee is going to
10 have to be looking at the question of developing some pretty
11 important goals and objectives relative to investment policies
12 regardless of what happens to the Permanent Fund. Now, we all
13 know that the reason the Permanent Fund is being created
14 is that we're looking at some mechanism to deal with anti-
15 cipated surpluses of revenue; we're going to be having more
16 revenue, that's what our projections are, than the state is
17 going to spend. So there's going to be an amount of money
18 in excess of the amount that we've described as the Permanent
19 Fund, regardless of whether or not the Constitutional Amend-
20 ment passes. I think that the state is going to have to tackle
21 this problem of devising a good investment policy for those
22 funds regardless of the outcome. Also I think also that's
23 something that -- you know, in some of the recent reports
24 like the Times editorials and some of the other news reports,
25 I almost get the impression that some people are talking as if

1 the Permanent Fund is going to create a problem of having
2 to deal with all this revenue and make all these loans and
3 make all these investment decisions. I think it's important
4 for this Committee, as the Governor's Investment Advisory,
5 to realize that the Permanent Fund doesn't have anything to
6 do with whether or not those policies are going to have to
7 be developed. Those policies are going to have to be
8 developed by virtue of the fact that the money is going to
9 be there and somebody is going to be making those decisions.
10 You know, regardless of the outcome of that amendment that's
11 up on the November ballot, this Committee is going to have
12 to start developing some broad policy goals and objectives
13 in terms of how the surplus is going to be invested, and they're
14 also at some point going to have to start involving the public.

15 MR. LOGSDON: Mr. Chairman.

16 MR. WOHLFORTH: Yes.

17 MR. LOGSDON: Am I correct that the purpose of the
18 standing committee is to address only the Permanent Fund?

19 MR. WOHLFORTH: I think that's correct, yes.

20 MR. WOHLFORTH: So that if there's a "no" vote on
21 the ballot, this Committee then automatically reconstitutes
22 itself to what it was.

23 MR. WOHLFORTH: I hadn't understood that until today,
24 but I guess that's right.

25 MR. MOTLEY: I think that the statute is very clear

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as to the membership. It's very broad.

MR. GALLAGHER: You can appoint any amount of members you want.

MR. MOTLEY: It's up to the Governor.

MR. WOHLFORTH: New members have, in fact, been appointed, have they not?

MR. GALLAGHER: Yes.

MR. WOHLFORTH: And they've gotten certificates.

MR. LOGSDON: May I offer an amendment to the motion, that if the voters approve the Permanent Fund before the next meeting that this issue be considered, the issue of objectives of the Permanent Fund be considered at the next meeting?

MS. FLEISCHER: You mean that would be the main order of business, which is what I was interested in.

MR. LOGSDON: Well, that was your motion, wasn't it?

MR. WOHLFORTH: Do you consent to the amendment?

MS. FLEISCHER: In the event that it passes.

MR. LOGSDON: Then we would have a mandate at that point to address this issue, I think.

MS. FLEISCHER: Right, but I do have a question. I guess we're not clear as to whether that's the sole purpose of the expanded committee or not.

MR. WOHLFORTH: I think the question is right now, do you accept the amendment or not to your motion. Would

1 you accept the amendment?

2 MS. FLEISCHER: I understand the question. I'm just
3 wondering, if it fails then what is the Committee going to do,
4 not talk about the goals and objectives.

5 MR. LOGSDON: Then the Committee is not going to
6 look to the objectives of the Permanent Fund because there
7 won't be one.

8 MS. FLEISCHER: Okay, I accept the amendment.

9 MR. WOHLFORTH: You accept the amendment, all right.

10 MR. GALLAGHER: Let's just talk about this whole
11 subject of goals and objectives. You know, this thing didn't
12 get this far down the line without talking about something
13 before the Legislature, and we talked about -- you know, the
14 Fund has a lot of broad base public support, and the public
15 obviously believes in something out there. From what I can
16 tell from the public support for the Permanent Fund, it's
17 coming out of three different sectors. There's those who
18 believe in savings account concept, there's those who believe
19 in community development and there's those who believe in
20 economic diversification. Now, maybe there's a fourth or a
21 fifth goal that I don't perceive of there.

22 MS. FLEISCHER: You mean you're saying that's what
23 the goals are, that's your choice?

24 MR. GALLAGHER: No, that's among the wide range.
25 That's at least those goals that I brought to the public.

1 The choice hasn't been narrowed down to all three.

2 MS. FLEISCHER: No, I know that. I wanted to clarify
3 that. I didn't mean that we should decide what the goals
4 and objectives were going to be within the next meeting. I
5 mean we should make that our next task, and I don't say that
6 it is a short nor an easy task. I do think it has to involve
7 the public and it has to involve the results of the public
8 forum and a public discussion on the whole fund. I'm saying
9 it hasn't been done yet, or if it has been done, if the
10 decision has already been made as to what the goals of the
11 Permanent Fund are going to be, then let's have that on the
12 table.

13 MR. WOHLFORTH: That's been expressed several times
14 today, that this group has decided the goals and objectives.
15 How can one say that we haven't honestly, and have you believe it?
16 I haven't; I don't think anyone else has.

17 MS. FLEISCHER: Okay, then I think that should be
18 the next thing we do.

19 MR. WOHLFORTH: The motion is to consider goals and
20 objectives at the next meeting if the Permanent Fund passes.

21 MR. MOTLEY: Is that your amended motion, Lanie?

22 MS. FLEISCHER: That sounds right.

23 MR. MOTLEY: I'm looking to you because I was the
24 second. Is that right?

25 MS. FLEISCHER: I said that, yes, we should start at

1 the next meeting to make that our main task.

2 MR. WOHLFORTH: All right. Do we have any further
3 discussion on that motion? Are you ready for the question?
4 All those in favor signify by saying, "Aye."

5 (Whereupon the Committee members responded
6 by saying, "Aye.")

7 MR. WOHLFORTH: Opposed. It passes. I may suggest
8 that I think what Commissioner Gallagher has presented in his
9 initial talk outlines some, at least, of three possible goals;
10 indeed, there may be more.

11 MR. LOGSDON: Mr. Richards also had a list of eleven
12 points, I think that could be considered objectives.

13 MR. MOTLEY: Mr. Chairman, could I make one comment?
14 You have to understand that with regards to the public
15 perception of the Permanent Fund, as time goes on it becomes
16 more and more public aware. It's put on a ballot, it's dis-
17 cussed by the Legislature, it's put on a ballot, people speak
18 for it, but prior to that time no decisions have been arrived
19 at, but that doesn't mean that there haven't been some people
20 who were paid by the state to think about this and haven't
21 been thinking about it, and one of the guys is sitting right
22 over there. He's been thinking about this since he went
23 to Juneau, and I think it's proper that he did, and I don't
24 think he's arrived at any conclusions. There haven't been
25 any decisions made as to goals and objectives. He's just doing

1 his job, kind of getting ahead of the game, and that's really
2 where we're at. Nobody has made any decisions.

3 MS. FLEISCHER: Well, some of the presentations imply,
4 at least, a direction.

5 MR. EDENSO: Well, one has to start somewhere.

6 UNIDENTIFIED: You got up here and you throw the rock
7 out in the pond and then you start rowing.

8 MR. GALLAGHER: I'd like to quarrel with that a
9 little bit. These people talked about a development bank.
10 Now, what is a development bank? A development bank does a
11 lot of social sort of things. It's community development and
12 economic development, one of the three things I laid out as
13 the objectives. Another one was savings accounts. If you
14 accomplish social and economic objectives with a development
15 bank and you strip away the word "development" but you look
16 at things that accomplish social objectives and economic
17 objectives, you know, what else is there, things to put
18 money in.

19 MS. FLEISCHER: Are you asking me?

20 MR. GALLAGHER: Yes. If the thing doesn't have a
21 social objective and it doesn't have an economic objective,
22 what else is there to put money into?

23 MS. FLEISCHER: Savings account.

24 MR. GALLAGHER: Yes, the only other third objective
25 could be a savings account.

1 MS. FLEISCHER: Okay, but we've used all the money for
2 consulting, unless we have other questions.

3 MR. WOHLFORTH: I think I have to recognize Mr. Love
4 and cut off the private colloquy.

5 MR. LOVE: I'd like to respond to what Sterling is saying,
6 first of all by making a general comment that I, for one, have
7 really enjoyed the presentations today and I think there was
8 a lot of thoughtful discussion and I appreciate the materials
9 we have received so far, and I do appreciate the necessity
10 for the Administration, who have been doing a lot of planning
11 on an ongoing basis like this, and I think it's really good
12 that they've started involving the public at this point
13 through the expansion of this Committee at a very early
14 point. It's a very positive thing and I have really a lot of
15 confidence in the good will and everything else of the
16 administration in this thing.

17 I do think that, you know, when we get into this talk
18 about goals and objectives -- I think that a lot of Com-
19 missioners feel that there is a lot of -- that generally out
20 there in the public that people's perception of what this
21 Permanent Fund -- it's so different from each person that
22 you talk to, that there's a necessity for this group to
23 sit down and discuss some of the basic assumptions about
24 just exactly what everyone's different idea is, and I think
25 that is what Lanie is getting at with her suggestion that

1 we get into a process where, as a Committee, we start dis-
2 cussions of our goals and objectives. Not every member of
3 the Committee, I think, feels comfortable with saying that
4 their own perception is apt to be shared by either the voters
5 or even by people they've met in the last fifteen minutes.
6 I think it's probably a need that many Commission members
7 themselves feel they have to have a more general discussion
8 about some of these things before we go much further, and I
9 think that's a lot of the stuff that Lanie's getting at.
10 I don't think it's any indication of a lack of appreciation
11 or support for any of the efforts of the administration or
12 the Legislature so far.

13 MR. WOHLFORTH: Any further comments here?

14 MR. MOTLEY: I move for adjournment.

15 MR. GRUENING: I'll make it quick then.

16 MR. MOTLEY: I withdraw the motion, in deference to
17 somebody that sits on my budget, or did, and probably will.

18 MR. GRUENING: This charge of the Governor is pretty
19 ambitious, in looking this over, and perhaps Sterling or
20 somebody could talk to what's the deadline on this thing.
21 It seems to me the Legislature convenes January 12 and they're
22 going to start, I imagine, on this matter too. At this point
23 we wouldn't give much assistance to the Legislature or the
24 Governor. Maybe we might want to narrow some of the -- if
25 we're going to just concentrate on the Permanent Fund, narrow

1 our attention at least if we're going to get something out
2 that is going to be of assistance to the Legislature and the
3 Governor by convening. I'm just suggesting that goals and
4 objectives is a pretty heavy task in itself. Between now and
5 the election I think, as individuals, the best we can do is
6 say, as Tony points out, these are the limits of the fund,
7 this is income producing, and try to describe what the language
8 could mean. But as far as beyond that, I think really
9 limited, and we're probably limited in the amount of time
10 we're going to have to deal with it before the Legislature
11 convenes. Maybe the Governor doesn't intend that to be a
12 deadline, but somebody ought to carry the message to him;
13 these are some real deep issues here.

14 MR. MOTLEY: It will be carried by special messenger.
15 Isn't that how we got things done earlier?

16 MR. GRUENING: Yeah, thanks.

17 MR. WOHLFORTH: Let me try this out on you. Frankly,
18 it's been suggested to me, but I think it's a practical
19 suggestion. One date that was suggested for the next meeting
20 was November 5. We recognize that meeting times will never
21 coincide with everybody's availability and so on, but that
22 is, of course, after the election -- it's several days after --
23 that the next meeting contain time for public input, if you
24 will, with advertisement, obviously, so there can be public
25 input of the kind that was suggested here, that a sub-committee

1 act in the meantime with Mr. Edenso developing questions,
2 pinpointed questions, for the consultants so that we can
3 carry from all the Committee members here today questions
4 that will really put them on their metal and develop more
5 specific information where members feel the need to have
6 gaps filled or more ongoing experiences actually detailed.
7 That is my suggestion and I would entertain a motion, if
8 someone would so move, to at least get it on the floor for
9 discussion, that the meeting date be November 5, that there
10 be time for public discussion and that there be a sub-committee
11 appointed to meet with the Commissioner or his Deputy to
12 pinpoint specific questions we want answered at that meeting
13 from the consultants.

14 MR. GRUENING: Can we divide the question? It's got
15 three things there.

16 MR. WOHLFOPTH: Sure.

17 MR. GRUENING: The meeting date, that sounds like
18 a good time. I'll second the motion.

19 MR. WOHLFORTH: Is that satisfactory? Okay, the
20 next meeting will be ---

21 MR. GRUENING: Possibly 5 and 6.

22 MR. WOHLFORTH: Oh, it's a two-day meeting then?
23 The 6th is Saturday.

24 MR. GALLAGHER: That's fine. I'm in New York and
25 flying backward.

1 MR. WOHLFORTH: All right, a two-day meeting, Friday
2 and Saturday, the 5th and 6th. That's the proposal, it's
3 a motion. Is there any objection to that? All right, the
4 next meeting has been established as November 5 and 6.

5 MR. GRUENING: Then the other one -- I don't happen
6 to remember all of the other one -- the other one was the
7 public participation, and I so move that we advertise ahead
8 of time, perhaps even starting now before the election.

9 MS. FLEISCHER: Would you say that in the form of a
10 public participation in the morning and then we could possibly
11 entertain it that afternoon?

12 MR. WOHLFORTH: Sounds like a good idea.

13 MR. EDENSO: Mr. Chairman, I do have a problem with
14 that. If we advertise now for public participation in a
15 meeting that is somehow never going to happen because the
16 amendment didn't pass on the 11/2 election ---

17 MR. GALLAGHER: You know, I think there might be
18 something to do; what do you do it, with the Permanent Fund
19 that's already in the General Fund. The Committee could
20 sit down and really discuss and see what we'll do with the
21 Permanent Fund.

22 MR. LOVE: I might just say that the purpose of the
23 meeting would be for people to come and address the Committee
24 on the issue of investment policy because that issue is still
25 before us regardless of whether we have a Permanent Fund or not.

1 MR. WOHLFORTH: All right then, is that satisfactory,
2 that the meeting day the morning be devoted to public input
3 and so on? Then finally, a sub-committee, or whatever, to
4 work with the Commissioner of Revenue on pinpointing questions,
5 specific questions, for the consultants to answer at that
6 meeting. Does anyone want to move that or not?

7 MR. LOVE: The problem I've got with that is so far
8 I've had -- both the administrative representative, Mr. Edenso,
9 and administrative representative, Mr. Rhode, and both indicated
10 that if I had any questions to channel to the consultants
11 all I had to do was write them out and send copies to both
12 Mr. Rhode and Mr. Edenso and they would make every attempt to
13 have those questions addressed by the consultants, and I have
14 been very satisfied with the cooperation of both those people.
15 I feel there is a vehicle right now if any member of this
16 Commission wants to do that, they can just provide that
17 information and channel it through these two staff people so
18 that everything is coordinated and there would be somebody
19 that would know what's going on all the time. I don't know
20 if it's necessary really for the Committee to do this.

21 MR. WOHLFORTH: Mr. Rhode.

22 MR. RHODE: Mr. Chairman, one of the terms of the
23 second part of your divided motion -- if there would be
24 room, for example, to have some working sub-committees of
25 members of this Committee, perhaps people that are most

1 concerned about possible social goals for the fund in terms
2 of the long program, or those who are more concerned about
3 long-term development, or those who are more concerned about
4 the fund being used in some sort of savings account, then we
5 could make, I think, far more economical use of the consultants'
6 time. Their fees run -- but, of course, with a large meeting
7 like this it's difficult for them to come to grips with the
8 full list of questions that people have. So, would your
9 motion bar some kind of ---

10 MR. WOHLFORTH: I'm not making the motion. Someone else
11 will have to make it. As Chairman I've suggested it for
12 everyone's consideration.

13 MR. EDENSO: Mr. Chairman, I would like to point out
14 Mr. Rhode and myself have worked at some considerable length
15 by default in getting our consultants activated, on board,
16 and responding to some major areas of concern we feel that
17 we've identified here. The Committee up to this point in
18 time has really given us no direction on this, and what
19 Mr. Rhode is asking, and I really appreciate it, is that
20 unless you do give us some direction I'm going to just charge
21 on like I want to get the job done.

22 MR. LOGSDON: Like you have to get the job done!

23 MR. MALONE: Mr. Chairman.

24 MR. WOHLFORTH: Mr. Malone.

25 MR. MALONE: On the subject, if a general discussion

1 is planned at the next meeting as well as participation
2 by the public, I would think that the concept of sub-committees
3 might be more valuable after some of those things are
4 hammered out, the sub-committees after the charge. I'd hate
5 to set out those tasks without some consideration.

6 MR. MOTLEY: I would support Mr. Malone.

7 MR. WOHLFORTH: What is the pleasure of the group?

8 MR. GALLAGHER: I wonder if there isn't something
9 that I may want. I'm asking the Committee if they have some
10 questions they also want the advisors to address at the
11 next meeting.

12 MR. MALONE: Mr. Chairman.

13 MR. WOHLFORTH: Yes.

14 MR. MALONE: I'm not sure all the members of the
15 Committee are familiar with the procedure Mr. Love described,
16 but I think it's probably an adequate way of getting a
17 specific question.

18 MR. WOHLFORTH: Well, I take it the sense of it --
19 I think the sense of the meaning ---

20 MR. MOTLEY: There never was a motion, was there?
21 I don't recall any motion.

22 MR. WOHLFORTH: Scratch the idea of the sub-committee
23 for now. Let me say by the next meeting I hope you find
24 a Chairman, not me -- not that I haven't enjoyed the
25 experience.

1 MR. MOTLEY: I think you've worn the mantle well, Eric.

2 MR. WOHLFORTH: I'll entertain a motion for adjourn-
3 ment. Oh, we have some other business.

4 MR. LOVE: I would like to introduce Mr. Batko, Bill
5 Batko. I had recommended to the administration and told
6 them that myself and Lanie talked to a couple of the members
7 of this Commission and he's worked with us. He's been doing
8 some work which we submitted to the board in short papers
9 having to do with different types of not such gigantic, but
10 smaller development corporations. I just wanted to introduce
11 him so if anyone wanted to talk with him -- he's only going
12 to be here two more days -- if anybody wanted to talk to him
13 they could. I would like you also to be aware that he's
14 going to be submitting to this Committee a -- this is a \$500
15 for personal services, very small -- he's going to be submitting
16 some papers after he gets back to Vermont and thinks about
17 everything, all the discussions that went on here.

18 MR. WOHLFORTH: Go ahead.

19 MR. EDENSO: Mr. Chairman, I would also like to
20 introduce Mr. Ken Jensen from from Arthur D. Little at
21 San Francisco. We have held conversations and have a tenta-
22 tive contract with Mr. Jensen, and the purpose of the contract
23 is to ask Arthur D. Little to provide us with some national
24 economy questions, given the potential size of the Permanent
25 Fund and the nature of Alaska's economy and what Alaska's

1 economy might look like in the future. The reason for this
2 type of information is to give the Committee, or provide
3 the Committee information which relates directly to potential
4 investment policy. For example, do you want to cut a per-
5 centage of the fund and dedicate it to certain specific kinds
6 of investment in Alaska? Do you want to put a ceiling, a
7 maximum size ceiling on a potential investment or an area
8 of the economy and say, "You shall not invest any more than
9 this amount in this particular area," and we think that with
10 the experience Arthur D. Little has had in doing this kind
11 of analysis in the past that they would provide us some
12 fairly good information. However, as I pointed out earlier,
13 there are considerations for the budget and the budget size.

14 MR. MOTLEY: With that in mind then, you're asking
15 for the Committee's approval. I'd like to review that
16 contract to make sure that we avoid any kind of duplication
17 on the other efforts that are involved in establishing that
18 for the state. I would withhold that until I've had a chance
19 to review that contract.

20 MR. EDENSO: I'm familiar with your potential contract,
21 Tony, since it was let, your contract with the company.
22 What we're asking for is results of the effort of their
23 model, (we're not asking them to resolve the model for us)
24 results of their model, given characteristics of the nature
25 of the economy in Alaska, working in close coordination

SCOMM

#9:40

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STATE INVESTMENT ADVISORY COMMITTEE
MEETING

NOVEMBER 5 AND 6, 1976

Anchorage, Alaska

1 STATE INVESTMENT ADVISORY COMMITTEE

2 November 5 and 6, 1976

3 Anchorage, Alaska

4
5 Chairman Eric Wohlforth called the meeting to order at
6 9:00 a.m. on Friday, November 5, 1976, in Room 406, State
7 Courthouse, Anchorage, Alaska.

8
9 Members present were:

10 Dr. Logsdon, Associate Director, Agricultural
11 Experiment Station, University of Alaska, Palmer
12 Mr. Eric Wohlsforth, Attorney at Law, Anchorage
13 Robert Barnes, President, Alaska State Bank, Anchorage
14 Mr. Dennis Waldock, Foster & Marshall, Anchorage
15 Mr. Jamie Love, Alaska Public Interest Research Group
16 Mrs. Lanie Fleischer, Anchorage
17 Mr. James Crawford, Coordinator Alaska Offices, Ted
18 Stevens/ U. S. Senator, Anchorage
19 Senator Frank Ferguson, Kotzebue
20 Commissioner Motley, Department of Commerce & Economic
21 Development, Juneau
22 Commissioner Gallagher, Department of Revenue, Juneau
23 Deputy Commissioner Edenso, Department of Revenue,
24 Juneau
25 Senator Kerttula, Palmer
Representative Gruening, Anchorage
Mr. Freer for Commissioner Allen, Department of
Administration, Juneau
Mr. James Rhode, Anchorage
Mr. Robert LeResche, Director Development Planning &
Research, Juneau (present on November 6)

Absent Members:

Mr. Emil Nottis, President Alaska Native Foundation,
Anchorage
Mr. Pihl, Comptroller Ketchikan Pulp Company, Ketchikan
Mr. Robert Thorstenson, Petersburg
Mr. Robert McFarland, Anchorage
Senator Butrovich, Fairbanks
Representative Malone, Kenai
Representative Urion, Anchorage

1 MR. WOHLFORTH: We are calling the meeting of the
2 State Investment Advisory Committee to order. I am acting as
3 temporary chairman in the absence of Bob McFarland, who is on
4 vacation right now and is unable to attend.

5 You all know of the passage of the Permanent Fund
6 Amendment last Tuesday, which has been the subject of study by
7 this Committee of two intensive meetings and this is the third
8 meeting where the subject matter of the structure of the
9 Permanent Fund and testimony has been taken at prior meetings
10 from consultants, really in a learning process, in aid of a
11 learning process to advise the Legislature, if you will, the
12 appropriate legislative committees of some Permanent Fund
13 operations in other states and provinces and development loan
14 bank operations elsewhere throughout the world.

15 This morning we have time set forth for public hearings
16 the subject being, now the Permanent Fund has passed, with its
17 limitation that monies placed therein be used for income
18 producing investments. What kind of structure of operation,
19 what kind of organization, what sort of use of monies for income
20 producing investments is appropriate to recommend to the
21 Legislature and to the legislative committees when they convene
22 and start their work in January. Fortunately, we have
23 legislative members on this Committee and, therefore, we hope that
24 the continuity of information which is started will flow more
25 evenly as the legislators carry their information back to the

1 committees when the Legislature convenes.

2 The agenda is formatted over a 2-day time frame and I
3 will just briefly go through the agenda. This morning is set
4 aside for a public hearing. This afternoon at 2:00 o'clock Mr.
5 Butler of White Weld will give a report on possible uses of the
6 Permanent Fund to leverage investment. In other words, the
7 concept of non-direct investment of the monies but use of the
8 Fund to create other investment vehicles or investment instruments
9 for those general purposes. At 3:00 o'clock, Mr. Bob Richards
10 will speak in general on the Alaska banking system and
11 presumably in his capacity for investments of various kinds
12 which might be contemplated for the Permanent Fund. At 4:00
13 o'clock, the Committee will have open discussion, presumably to
14 digest and to comment on some of the items which they have heard
15 this morning and will hear this afternoon. At 9:00 o'clock
16 tomorrow, and presumably at the same place, Price Waterhouse
17 Company will report on management governing boards and problems
18 encountered in both the operation of other permanent funds and
19 in the operation of development loan situations, development
20 loan bank situations elsewhere in the world, the question of
21 What Went Wrong. In other words, how can we avoid some of the
22 mistakes that have been made elsewhere in this area. At 10:00
23 o'clock tomorrow there is scheduled a work session under the
24 general topic of Structural and Organizational Considerations.
25 At 1:30 tomorrow, a continuation of work sessions on the question

1 of structure of the vehicle, which will make the investments, if
2 you will, which are permitted under the Constitutional
3 Amendment which just passed on Tuesday.

4 As you speak this morning, if you would proceed to this
5 little card table, the microphone will be placed on the card
6 table, and simply identify yourself and spell your name for the
7 purposes of the transcription. All of these hearings are being
8 transcribed verbatim. And here is the transcript of the last
9 meeting. Again, with the notion that the legislative committees
10 will have a complete record of the information and comments that
11 have been submitted at these meetings. I would like to get an
12 indication now of the number of members in the audience who do
13 wish to be heard this morning. Seven members. Given that, I
14 don't think we need to impose any time stricture because there
15 seems to be plenty of time to accommodate all those who wish to
16 be heard. I do have one request to speak initially and that
17 request comes from Mr. Phil Daniels who is here and apparently
18 has a pressing time problem. If any of the others have absolute
19 time committments and there is any reason they can't stay beyond
20 the next hour, we would be glad to hear them in a preferential
21 order.

22 Again, just to alert you to our interest, this is an
23 information gathering, educational type of effort, speaking on
24 the structure and organization of the vehicle which will "administer"
25 the Permanent Fund as well as intentional investments as they

1 relate to what is happening in Alaska and what we estimate what
2 will happen later. So we would begin the public hearing then
3 and Mr. Phil Daniel will be first.

4 MR. PHIL DANIEL: Mr. Chairman and members of the
5 Committee, my name is Philip Daniel and I am with United
6 Fishermen of Alaska. That is a rather dubious gathering of
7 commercial fishing organizations representing about 24 groups
8 that are spread through the coastal regions of the State.

9 I would like to speak in rather general terms about the
10 present situation in the fisheries as it might relate to the
11 Permanent Fund. The first observation would be that the Alaska
12 fisheries at this point in time is rather archaic in structure
13 and in its scope. I don't want to say by that that we are not
14 reasonably efficient in the things that we do. I am really
15 trying to get at the problem that the fishery is rather narrow
16 in its viewpoint. We are presently harvesting about four stocks.
17 They are gourmet items as most of you probably know if you have
18 gone close to any of those items on the grocery shelf. And we
19 are neglecting things that could be done. Certainly, that might
20 pertain to the subject at hand. By that I mean that two years
21 ago, 5.6 billion pounds of fish were harvested in Alaskan waters
22 and of those 5.6 billion pounds that were harvested the
23 Japanese and Russians took 5.1 billion which is about 89 percent
24 of the poundage produced. That by no means represents poundage
25 of salmon or the various traditional fish that we are primarily

1 concentrating on, but primarily bottom fish that American
2 fishermen are not presently trying to harvest. I don't know what
3 the economic value of those bottom fish would be, but I would
4 assume that, if a market were developed, it would be substantial.

5 The first problem is simply that the market has not
6 been developed. And the present burden, of course, is upon the
7 processor as far as developing the market. It's a substantial
8 burden and it may be that the State could play a role there. I
9 don't know whether, for example, the State might want to think
10 along the lines of standardizing a brand for the State of Alaska,
11 something in the direction of Florida orange juice or Florida
12 oranges. I know there has been discussion of this in Juneau.
13 That certainly could help. Any marketing operation, getting the
14 message out to the general public could help substantially.

15 Additionally, and I don't want to go too deeply into
16 what might be possible except to kind of outline the problem.
17 But there is just no question in my mind, in the future we are
18 going to have to rely more and more on the renewable resources.
19 There is going to be a terminal point, at this point in time,
20 we don't know when that will be as far as the very substantial
21 oil production that is going to take place in the near future.
22 And, at that point, I would assume we will be dropping back on
23 the traditional renewable resources, tourism, fisheries, timber
24 and things of this type. So it might well be worth considering
25 what the Permanent Fund by way of investment could do to stimulate

1 the fisheries, and certainly the movement into the bottom fish.

2 Under the present 200-mile regime, we have an ability
3 to displace the foreign vessels that are presently harvesting
4 our fish stocks. I don't think that is going to happen initially
5 at a very, very high rate. Mainly because there is going to be a
6 temptation to trade off Alaskan interests against other national
7 interests and there is only 350,000 of us and you have about
8 200 million people sitting down in the Lower 48 and I think there
9 will be a continued temptation for the State Department to trade
10 off Alaskan interests and perhaps make concession on our bottom
11 fish stocks that probably shouldn't be made. But over a period
12 of time, under the present bill, we can displace the foreign
13 fisher. And that is going to require, of course, a gearing up
14 on the part of American fishermen, but even more so the
15 development of those markets. So I think that should be the main
16 thrust of the thinking.

17 Additionally, as many of you may have heard to the point
18 where you don't want to hear it again, our salmon fisheries are
19 in very great difficulties. We only have about a third of our
20 salmon stock remaining at this point in time. We feel that that
21 situation need not exist in the future, primarily of the success
22 of the Japanese efforts in hatchery production. Last year Japan
23 produced 16 million chum salmon which is four times the annual
24 average production for the State of Alaska. And they have done
25 that at a very substantial cost benefit ratio. Their better

1 hatcheries are achieving a cost benefit ratio of 24 to 1. I
2 would not want to say then that we can expect that kind of
3 achievement here, but it certainly should be able to operate at
4 a profit. And this will be the crucial test in any hatchery
5 system, whether it is a State hatchery system relating to the
6 presently passed bond issue, or whether we are looking at it from
7 the standpoint of private non-profit hatcheries that presently
8 exist. The crucial test would be whether they could the fish
9 and afford to catch them. Traditionally, of course, the hatcheries
10 that are producing fish in the northwest are often questionable
11 in that respect. They very often had a fish return that was
12 more expensive that you could afford to produce. You perhaps
13 could justify it from a sports fish point of view and from a
14 tourism point of view because those fish are individually worth
15 more to the State in those areas than they are in a commercial
16 fishery. But from a commercial point of view, there have been
17 some very significant breakthroughs in the last few years in
18 hatchery production that has brought the price down very
19 substantially. The present price tag that is being talked about
20 is somewhere between one and four million dollars for a 40
21 million fish capacity gravel incubation system. I don't want to
22 go into detail on gravel incubators except to say they produce
23 a very healthy smolt and they product it at a very much lesser
24 cost than the so-called conventional hatcheries that have been
25 employed for years in the northwestern part of the United States.

1 The crucial test, again, is whether or not in Alaska we
2 can build these hatcheries, turn the fish loose, and get them
3 back to us at a profit. I think that is a distinct possibility.
4 We very strongly urge a loan program that was passed by the last
5 Legislature creating a 200 million dollar loan program which works
6 in this fashion: The fishermen would assess themselves and the
7 value of their catch in a particular region, the money derived
8 from that assessment would be used for security to approach that
9 loan. And, of course, the idea is to put part of the burden of
10 replenishing the fishery on the fishermen themselves. And I
11 believe there is almost an universal willingness among fishermen
12 to help absorb the cost. This doesn't, of course, say that we
13 should not have State-owned hatcheries. I have some criticism
14 of the State program at this point in time. It is obviously
15 new and it is perhaps a little bit premature to be terribly
16 critical of them. But I can certainly see a role for State
17 hatcheries and especially in areas where there is intense
18 concentration of sport fishermen. On the other hand, if the
19 commercial fishermen themselves are willing to help pick up the
20 tab for rehabilitating the commercial species, it is probably a
21 very desirable situation. And I think that willingness does
22 exist.

23 I could see the Permanent Fund acting as a stimulant to
24 the industry moving into the bottom fishery. I can see it acting
25 perhaps as a stimulant to the hatchery production situation. The

1 bills that are presently passed are not perfect. We may want to
2 revise them extensively. There is certainly going to be a
3 considerable monetary requirement so far as rehabilitating the
4 salmon fishery. If that were done solely with State money, we
5 might be talking of a sum of around 300 million dollars. That is
6 a substantial amount of money. It is not, of course, unthinkable
7 if you look at what is happened in the rest of the Pacific realm.
8 Washington just initiated last year a 200 million dollar
9 expansion of their presently existing program. British Columbia
10 initiated a 300 million dollar expansion of theirs. Japan is
11 expanding her hatchery system at a very significant rate. Last
12 year they released a billion smolt. And within ten years, they
13 will be releasing 2 billion smolt from their hatcheries. Last
14 year we released 6 million smolt from all of our official
15 sources. So it is rather pertinent that we look in these
16 directions. I don't want to try to convince anyone who is
17 sitting at the table that I have a good grasp of the economics
18 of the situation. I am really rather naive and am speaking to
19 you as a commercial fisherman. But I can certainly see a very
20 significant role that could be played by the Permanent Fund to
21 stimulate the industry and hopefully provide an economic base
22 that we can turn to when other avenues have exhausted themselves.
23 Thank you.

24 MR. MOTLEY: Mr. Chairman, could I ask a couple of
25 questions? Mr. Daniel, you talked about -- you said that no

1 market was established for the 5.1 billion pounds. What you
2 really mean is that there has been no domestic market.

3 MR. DANIEL: That is correct.

4 MR. MOTLEY: Wouldn't you think it is a logical
5 assumption that given a 200-mile limit that the people who have
6 been used to eating that 5.1 billion pounds of fish aren't going
7 to stop eating them. So what we are really talking about is a
8 change in the relationship of the process in which they're caught
9 and processed within the 200-mile limit, i.e., the exclusion of
10 foreign fishing rather than necessarily disrupting the total
11 market. Is that a fair statement?

12 MR. DANIEL: I would say it is. Certainly, if the
13 American fishermen were to catch those fish, I think the American
14 fishermen would like to see the reserve in the present balance of
15 trade deficit. We had a 1.5 billion dollar balance of trade
16 deficit last year, the Federal Government did on fisheries
17 products. Well, if you could turn that around so so that we were
18 harvesting and selling to the Japanese, that would be fine.

19 MR. MOTLEY: So what we are talking about, you would
20 envision the Permanent Fund to be a vehicle to possibly replace
21 the Japanese mother ships with American mother ships or on-shore
22 processing facilities?

23 MR. DANIEL: Well, I think that. But I would like to
24 go beyond that. We have done so little in the Lower 48 to
25 convince people that fish is a good product. In France, the

1 average Frenchman eats about 33 pounds of fish a year, and in
2 Japan it is almost twice that. The average American eats about
3 11 pounds. We are primarily beef eaters, I suppose, in the
4 United States. And I have heard many people make the observation,
5 first, that you can't buy fish here in Alaska, which obviously
6 is not the greatest market in the world by virtue of the lack of
7 population. But if we could do something to get fresh fish or
8 good products down into the Midwest, for example, or the East
9 Coast. I've seen fish products that we harvested here that you
10 could sell on the East Coast for 40 to 50 cents a pound, bottom
11 fish, that you can't give away here. You use them for bait.
12 And it is really not desirable and I think -- and I really agree
13 with you, you want to continue to go to those markets. At the
14 same time, if there is anything you can do to broaden that
15 market, especially broaden it into the Lower 48, I think that
16 would be desirable.

17 MR. MOTLEY: With regard to the fish hatcheries program,
18 would you envision, given the Constitutional Amendment states
19 that it is a return on its investment, that the private nonprofit
20 hatchery program as envisioned in the current 200 million dollar
21 program -- we've got one going in Cordova and we're looking at
22 a couple of others -- would they under the ground rules of the
23 Constitutional change, do you think that they would be a more apt
24 vehicle for this investment as opposed to a State-operated
25 hatchery program?

1 MR. DANIEL: I really think that they can do it more
2 cheaply and I think as far as the capital investment, the initial
3 investment. There are going to be two things in those private
4 hatcheries, one, they have to have good biologists and, two,
5 they've got to have a good business manager.

6 MR. GALLAGHER: Those mother ships, or a like vehicle,
7 how much would they run in American dollars? A million and a
8 half?

9 MR. DANIEL: I think it would be very, very much more
10 than that. 80 foot, 100 foot crabbers now run better than a
11 million dollars. The mother ship, a floating factory ship is
12 what we're talking about would probably run millions of dollars.
13 To displace the Japanese does not necessarily require a mother
14 ship fleet. The only they've got that mother ship there is
15 because it's a distant water fishery, which is the most
16 inefficient method moneywise to produce protein that exists.
17 And with shortage on fuel and various things of this type will
18 really limit their operations in the future. In some cases, we'd
19 need a floater, it wouldn't have to be an extensive operation
20 necessarily as far as size. Again, land-based processing is very
21 often appropriate. The only time it would not be would be in
22 cases where weather conditions or harbor facilities were not
23 available. I don't know what the economics of that is, the cost
24 of a floater as compared to a land-based processing operation.

25 MR. LOVE: What effect do you think all this off-shore

1 operation would have?

2 MR. DANIEL: Well, there is real nervousness among the
3 fishermen. I said one time in a public testimony on this type
4 of question that perhaps it was the case and I heavily emphasized
5 the perhaps, that fishermen were simply paranoid about some of
6 these issues. It came out in the press a little bit later that
7 I had said they were, in fact, paranoid. The problem with most
8 of the fishermen is they can read and they read things -- for
9 example, there have been some reports by the National Fishery
10 Service that indicate vulnerability of crab and shrimp loss one
11 part per million of oil actually dissolved into the water. Well,
12 this makes fishermen nervous. They don't really know what that
13 means but it doesn't sound good. So there is real apprehension
14 about OCS. My only solution to it is not a very sophisticated
15 one. I have suggested repeatedly to the oil companies what
16 needs to be done is take a group of fishermen and go to the Gulf
17 of Mexico and allow those fishermen to talk to their counter-
18 parts. You might want to allow them to talk to some experts
19 too, some professorial types and perhaps people who are experts
20 on pollution problems. But the main thing is the fishermen
21 themselves have more credibility with Alaskan fishermen than
22 anyone else will have. And if you can get these guys to sit
23 down and talk to their counterparts in the Gulf and the guys
24 down there, in fact, say, as some of my lobbyist friends from
25 the oil companies indicate, that they can live with OCS

1 development, I think that will go further to solve the problem
2 than anything else. I think the fishermen would be -- I would
3 be enormously grateful not to feel apprehensive about OCS.

4 MR. LOVE: How much investment capital do you think
5 would be advisable?

6 MR. DANIEL: I really couldn't answer that with any
7 sophistication at all. I would get into figures on what it would
8 cost to rehabilitate the fisheries. I think that figure would
9 probably obtained if the State did the entire job. I believe if
10 we get private industry into it, we can do it somewhat cheaper.
11 As far as developing markets and as far stimulating the harvest
12 of bottom fish, I really don't have figures on that. I just
13 haven't heard any, I don't know that any exist, although they
14 probably do.

15 MR. LOVE: I just wanted to point out in the interest
16 of future deliberations, it would be useful to have some figures
17 given to us. Also if you see the need for an investment in the
18 area of hatcheries and also in building boats or in processing
19 facilities.

20 MR. DANIEL: Well, I can see it in the boat building
21 if you're moving into different fisheries. We are obviously in
22 the salmon industry too efficient at this point in time. If
23 you're using a boat for other purposes besides salmon, perhaps
24 it is justifiable. If you're looking at the standpoint of moving
25 into these bottom fisheries, very definitely we could use State

1 money in that respect. Because the burden right now for the
2 fisherman who wants to develop a new technique or move into
3 something is entirely upon that fisherman. I don't know of any
4 experimental monies that are available except perhaps a very
5 small amount. I could see it there. I see it certainly in the
6 hatchery situation but, again, I want to emphasis that what we
7 are really interested in is the loan program where the State
8 gets its money back. Simply a loan that is repaid out of the sale
9 of surplus fish at the hatchery racks and repaying these
10 assessments on the fishermen.

11 MR. LOVE: You think the big part of it is hatcheries.

12 MR. DANIEL: Well, the bottom fish thing could be
13 tremendously valuable. Right now we have had a tendency to be
14 rather narrow in our viewpoint and look only at the hatcheries
15 because salmon is a glamour fish. And we're in trouble on
16 salmon and I think people recognize that. But I think we also
17 ought to look at those bottom fish stocks very, very definitely.
18 And I can't be as specific there about what the State can and
19 can't do. But 5.1 billion pounds of fish should be worth a
20 considerable amount of money, so if we could move into that area,
21 it would seem to me to be very desirable.

22 MS. FLEISCHER: I want to ask you, for instance, on
23 bottom fish. I don't know anything about them. How renewable
24 are bottom fish? You are not talking about hatcheries when you
25 are talking about bottom fish.

1 MR. DANIEL: No. Hatcheries would only apply to the
2 salmon.

3 MS. FLEISCHER: How do ---

4 MR. DANIEL: Well, it is a more frustrating situation.
5 For instance, our halibut stocks are in big trouble now. There
6 was a time previously when they got so depressed that we simply
7 quit fishing for them for a number of years and they did
8 recuperate. We've got additional problems now because the
9 Japanese -- the halibut are not the target species for the
10 Japanese, but they catch about a 1 percent incidental catch
11 while they're chasing pollack and various things of that type.
12 That just devastates those halibut stocks because these are
13 primarily juvenile fish, you know, immature. They are renewable
14 but it's not the same thing as being able to put a hatchery in
15 and let them go and let them come back to you. The main method
16 of renewal is simply to quit fishing for them. The Japanese and
17 Russians at this point in time have absolutely devastated some
18 of the stocks. We're down on pollack to where we're supposedly
19 harvesting primarily juveniles. We have already gone through
20 ocean perch to the point where they are in grave jeopardy and
21 the Japanese use what is called the pulse fishing technique.
22 They go in and harvest the fish where it is down to the point
23 where they are no longer economically feasible. Then they leave
24 them alone and theoretically allow them to recuperate. However,
25 our biologists don't think they necessarily give them enough time.

1 MS. FLEISCHER: Is there anything that can be done, as
2 far as you know, for renewing bottom fish?

3 MR. DANIEL: We need a better and more careful
4 regulatory regime. Under the new bill, we have the ability to
5 tell the Japanese and Russians who can fish and where they can
6 fish and when they can fish.

7 MS. FLEISCHER: In other words, there will be
8 cooperation maybe.

9 MR. DANIEL: We can insist upon it. There is always
10 the question whether our State Department is going to show any
11 courage.

12 MS. FLEISCHER: I wanted to ask you also about -- some
13 of the other things you have mentioned like tourism and timber
14 and other industries in this State can be a threat, I imagine,
15 to fisheries and I was wondering if the fishermen are part of
16 that decision-making process and whether you are able to cooperate
17 with the timber industry or the timber industry is able to
18 cooperate with you to protect like salmon stock.

19 MR. DANIEL: We have tried to adopt a very cautious
20 attitude toward timber and oil. And certainly do not want to
21 get into the stance of trying to say these two industries which
22 are very, very vital industries in the State should not exist.
23 There is a real apprehension in Southeast Alaska among fishermen
24 as to what is happening on those salmon streams. And we have
25 tried and tried, again, to get as much protection in the salmon

1 streams as possible with prohibiting timber harvest. I certainly
2 think that there is a possibility of mutual existence there.
3 The thing that encourages me too, I don't want to see us just
4 simply throw open the door and say we're not going to worry about
5 stocks because that's the least expensive way to produce fish.
6 With hatchery production, it is interesting that today in
7 Washington and Oregon and B.C., as well as in Japan, their
8 production on salmon is as great as it ever was. In fact, in
9 Japan, far greater than it has been historically. And the
10 Japanese are producing their fish on the island of Hokkaido and
11 Northern Honshu Province and the population pressure there is just
12 unconscionable. There are 6 million people living on the island
13 of Hokkaido.

14 MS. FLEISCHER: So, in other words, they create salmon
15 streams, in effect, so you aren't dependent on the natural
16 streams. That was one of my questions plus the fact that I was
17 reading about a salmon fishery in Washington and apparently part
18 of what happened there was the dams on the rivers. And I know
19 that there are some plans and probably will be more for
20 hydroelectric development here in Alaska. And I am wondering if
21 that can be planned in a way not to interfere with the salmon
22 industry or whether you are part of that decision-making process
23 as to where dams should be.

24 MR. DANIEL: Well, I think there are certainly bad
25 things you can do. We have so many streams to choose from and

1 there are some where it would be very, very distressing -- if we
2 went out and tried to dam up Iliamna Lake, for example. Not that
3 that is going to happen but that is a major spawning area and
4 terribly valuable from that viewpoint. Certainly there are
5 alternatives in most cases where they are not necessarily
6 interfering with salmon. And we would be concerned about that.
7 Hydroelectric projects, without a doubt, are a major feature
8 that caused a decline in the Northwest.

9 MS. FLEISCHER: My question was, are you part of that
10 decision-making process?

11 MR. DANIEL: In a very, very small way. It's partially
12 our own fault. We obviously can become more a part in these
13 decision-making processes. Our organization is a bit new and we
14 have been somewhat preoccupied with limited entry, especially in
15 the last few weeks. But I think the opportunity certainly
16 exists, it's just a matter of our taking advantage of it.

17 MR. FREER: What sort of research effort aimed at
18 better utilization of the fish that were caught in Alaska. I
19 wonder if you saw any need for a continuing type of research
20 program such as that for use of monies from this Fund?

21 MR. DANIEL: Well, we really need to do those things,
22 I think. One of the things that I hadn't really thought about
23 is how desirable -- we've got so many stocks, sea urchin, for
24 example, that are highly valuable in Europe that we are not even
25 touching. We have some abalone down in Southeast. There's

1 probably a long, long list of fish and fishery products that we
2 are not utilizing. Research in those areas would be highly
3 desirable. The National Fishery Service does some of that,
4 probably not an adequate amount. By the way, I did mean to
5 mention earlier in my testimony that with the 200-mile limit
6 bill on the books you may see some Federal money coming into
7 these areas. But whether or not it will be a substantial amount
8 or whether or not it will work to our best interest is still a
9 matter of question. I would certainly say, yes, we could use
10 additional research.

11 DR. LOGSDON: What is the existing capability of
12 Alaska fishermen to take bottom fish?

13 MR. DANIEL: Well, the guys in crab fishing, boats
14 that are quite substantial in their size. And I would say that
15 many of them could be converted. It seems I remember a cost of
16 45,000 dollars conversion, to convert some of these boats over
17 to where they would have a capability on bottom fish.

18 MR. EDENSO: There would be a limitation on the size
19 of the boat.

20 MR. DANIEL: Yes, there are lots of factors.

21 MR. EDENSO: If you're just talking conversion in gear,
22 it is going to be in excess of 50,000 dollars.

23 MR. DANIEL: Okay. Well, I had seen the figures but
24 it's been several months ago, I saw them and they slipped away
25 from me. Some of the guys in Kodiak and on the Chain would tell

1 this story a bit braver than perhaps they should about their
2 ability to move immediately there. I know that the desire
3 exists, but the practicality of the matter, it means gearing up
4 and gearing up not only so far as the boats but processing
5 capability and marketing ability. And considering those
6 factors, no, not close. The boats themselves are much closer
7 than anything else so far as being able to get into the business.

8 MR. WOHLFORTH: This subject is obviously one that
9 would take us weeks of testimony and we want to bear in mind we're
10 just getting an introduction. Hopefully, people like Mr. Daniel
11 will work closely with this Committee and the legislative
12 committees on a continuing and more detailed basis on what he
13 has just been able to give us a brief introduction to this
14 morning. I think I would say you, unless you have a burning
15 question, that we suspend questioning in deference to the others
16 who are here and who may have a time scheduled that they really
17 need to meet.

18 MR. WALDOCK: Mr. Chairman, I would like to ask just
19 one question. Mr. Daniel, I would like to know if there is any
20 research underway at this particular time to see whether or not,
21 if we funded the Fishery Department, whether it is going to be a
22 profitable operation because part of the criteria of the
23 Permanent Fund money has to have a return for the investors.

24 MR. DANIEL: Well, no, I would say that there is
25 probably not much being done there. Not as much as should be,

1 and probably should be very carefully looked at as far as
2 whether you let the money go in the direction of private industry
3 or whether you let it go into any department, whether or not you
4 are going to get an attractive cost benefit ratio. I doubt that
5 very much is being done in that direction.

6 MR. GALLAGHER: We attempted to do some but it is
7 pretty sketchy.

8 MR. DICKEY: I am Don Dickey, president of the Alaska
9 State Chamber of Commerce. I have with me two well-known Alaska
10 businessmen, Mr. Bill Scott, an accountant from Anchorage and Mr.
11 Frank Murkowski, a banker from Fairbanks.

12 I want to first say we can all take pride in the voter
13 response to the Permanent Fund, a two to one overwhelming support
14 I think is an indication that people are interested in seeing
15 the benefits of such a program. I would commend the Legislature
16 for their efforts, Mr. Malone and Mr. Miller and any others I
17 may not have seen, so that the record will indicate they did put
18 the package before the public and gave them a chance to vote on
19 it and this Committee has also. In fact, at noon Tuesday when
20 people were voting on this issue, I had Mr. Edenso as a speaker.
21 So we were confident that the public was going to accept it and
22 we are delighted that you have met so promptly to get public
23 input on the program.

24 Our purpose today, basically, is not to much to offer
25 specific suggestions as to where the funds might be invested but

1 we will, in the future, be specific on that. But perhaps more to
2 speak to the point of the goals, the objectives and the structure
3 that we see might be helpful.

4 I think the Permanent Fund is an exciting concept,
5 properly used can bring untold benefits to the widest cross-
6 section of Alaskans. I think it has also the ability or the
7 possibilities of abuse and, if abused, will create a boondoggle
8 second to none that we've had and of unprecedented consequence.
9 Hopefully, in our testimony I hope to bring that out. Our
10 purpose is to suggest ways that it can avoid the rocks and shoals
11 and that it can be a success.

12 About two years ago the State Business organization had
13 a conference -- convention -- the theme, Can Alaska Afford
14 Prosperity. And it wasn't a facetious question. We were asking
15 ourselves -- most of us that had lived here for a number of
16 years that we seem to thrive best in poverty, perhaps have had
17 more experience with it and when we get prosperous, as we did
18 once, and appear to be threatened again, we seem to have little
19 problems of getting along together or just how that should be
20 utilized, like a family does sometimes when they divide up the
21 pot. So our suggestion today to you -- it is not a new subject
22 to us, asking what we would do with our funds. We've been down
23 this path before and we'll tell you something about that and
24 offer some suggestions on how constructively we think this might
25 be structured.

1 I am going to ask first from Bill Scott. He is past
2 president of the Alaska State Chamber of Commerce. He is Alaska
3 managing partner of the accounting firm of Peat, Marwick &
4 Mitchell.

5 MR. SCOTT: Thank you, Don. There are a couple of
6 things that seem to me important. They are more structural
7 than the on-going things that Frank will mention.

8 Again, in the interest of being very brief, it seemed
9 to me that in the structure of the Fund itself, in the
10 management of it, it needs strong leadership. We have discussed
11 this back and forth and I don't think that facet is disagreed
12 with by many. But it seems to me that it needs to be in
13 perhaps a separate State-created corporation or entity, it
14 doesn't have to be a corporation, that would be answerable to
15 the Legislature. Because it will, in fact, it seems to me to
16 be the Legislature that will set many of the guidelines. That
17 entity then should be headed by an able and strong leader who
18 can implement policy as the Legislature dictates.

19 I believe that the Fund should have constant and
20 on-going review, not only from the financial transaction
21 standpoint but also from an operational analysis standpoint so
22 that programs can be continually evaluated. And, third, it
23 seems to me that what has been referred to in the national press
24 as a sunset provision be part of the enabling legislation. So
25 that, if three, four, five years down the track it is obvious

1 to everyone that the Fund is going awry, that the initial
2 purpose, while apparently valid at the beginning, no longer
3 seems to be serving the wishes, that there can be automatic
4 provisions for change in the structure without going through a
5 complicated political process to arrive at that ability to
6 change.

7 With that, I would like very much for Frank Murkowski
8 to continue our presentation with some comments he has on more
9 specific investment areas.

10 MR. DICKEY: Before Mr. Murkowski speaks, he has
11 many titles. He is president of the Alaska Bank of the North,
12 Fairbanks. He is chairman of the board of the Alaska State
13 Chamber of Commerce. And probably of equal importance for your
14 purpose today, he is former Commissioner of Economic
15 Development and in that capacity had some involvement with loan
16 funds so I think he can add something to your deliberation.

17 MR. MURKOWSKI: Thank you, Don. I would like to call
18 your attention to one of the basis premises of the Permanent
19 Fund in its concept, the statement that the fund is to be used
20 for income producing investment. That really opens up a
21 Pandora's Box. Not only to your Committee, but to the
22 Legislature and the administration, the labor, business
23 community and just the populace of the State as a whole.
24 Because it implies all the grandiose benefits from such a
25 substantial reserve, savings account, or whatever you want to

1 call it.

2 I would like to express some concerns I have directly
3 in this area. And obviously being a banker I am automatically
4 suspect from the standpoint that what I am going to say is
5 basically that I don't want the State to compete with me in the
6 loan business. The reason I say that is I don't feel the State
7 can realistically involve itself in very, very broad loan
8 programs for the benefit, theoretically, of the public as a
9 whole in a very general way because of the politics that enters
10 into these programs once they are established and the lack of
11 independence that a State agency has in loaning funds. I am
12 speaking very general and across the board in this respect. I've
13 been there, I've handled State loan programs and I am very much
14 aware of the political pressure that is brought to bear. It is
15 all well meaning but it results in bad loans and severe losses.
16 This is not necessarily the rule by any means, but there is
17 enough of it to make for a great deal of concern. I think there
18 are some specific programs, loan programs that can be handled
19 and utilized. There are some very successful loan programs
20 within the State. I would point out the Veterans loan
21 program as one. But when you get into these very broad areas
22 of providing loans that are, in effect, high risk. The
23 individual who is living in a community will go to a
24 legislator and say, "I've got a tremendous program here and I
25 would appreciate your help" and he prevails without getting into

1 the credit worthiness of what the application is to the
2 director who is responsible for the function and the pressures
3 begin. And it results in some very, very difficult situations
4 that can be avoided if it is properly structured.

5 I would suggest that the area that you look into
6 initially are some the broad guarantee concepts. There is on
7 the books at the present time, I believe it is called the Alaska
8 State Industrial Corporation which allows the State to use its
9 tax exempt status. The concept I think came into effect, oh,
10 about nine or ten years ago and it has never been used because
11 there has been a reluctancy in the administration to allow the
12 State's credit to be on the line in the concept of a guarantee.
13 It has an application from the standpoint of providing the
14 development of industries that are of high potential but yet
15 high risk from the standpoint of other adequate markets in the
16 State. I would use as an example one, the cement business in
17 Alaska today. We certainly have all the resources to develop
18 a cement manufacturing process but it is questionable whether
19 the markets are here. But a guarantee program where the
20 Permanent Fund could guarantee the bonds has an application.
21 That type of program would result, in my opinion, in substantial
22 new industry. It would not be a tax incentive per se, but it
23 could have a very substantial assistance to the development of
24 the industry.

25 I would suggest too that when thought is given to the

1 concept of participation in loans that you require high
2 participation from the lending institutions, if you get into
3 programs of that nature. I don't think 10 percent is adequate.
4 I think 25 percent is more realistic. Because then the
5 policing is done by the lending institution that is directly
6 involved in the credit.

7 There are some applications in the area of renewable
8 resources that you are going to get a great deal of testimony
9 on. And I think one of the most paramount at this time that
10 this Fund could really get involved in in the form of a
11 guarantee concept would be in the area of agriculture. You are
12 going to hear a lot about fish, mining, tourism, oil and gas,
13 timber and whatnot. But the concept of making large tracts of
14 land available by theoretically using a portion of the
15 Permanent Fund, say, to clear the land. Then get into a lease-
16 back, it's got to be a large corporation, total utilization
17 development concepts, then they would pay it back off of the
18 development of the land, you are creating some basic, new
19 industry within the State. You are creating jobs in a new area.
20 And you're creating obviously substantial markets overseas for
21 the products.

22 So, in conclusion, I would just leave you with the
23 dire warning, if the program does get into an area where it is
24 a broad loaning function, then politics is going to enter into
25 it. And I would hate to see what is going to happen five or

1 ten years down the line because no administrator can hold up
2 under that kind of pressure. I would be happy to answer any
3 questions.

4 MR. GRUENING: Did you say the Veterans loan program
5 was an example of one that ---

6 MR. MURKOWSKI: No, I specifically stated in my
7 testimony that the Veterans program was an excellent program.
8 There are many excellent programs. The Veterans program is not
9 a broad loan program where somebody can come in with anything.
10 It is secured by real estate, the safest kind of program there
11 is.

12 MR. GRUENING: Is that because it's a housing loan?

13 MR. MURKOWSKI: That is one of the reasons, sure.
14 It has specific guidelines and you have got to, in effect, have
15 the collateral value. Specific guidelines. So it takes
16 reasonable discretion out of it because you've got specifics.
17 But you get into areas where you're projecting what the cash
18 flow of a new business is going to be and you've got to be
19 realistic with it and, if it's marginal, that means it is
20 marginal and you've got to look at it that way. You can't kid
21 yourself by saying, "Well, we hope this will happen and this
22 will happen and, therefore, it will work".

23 MR. GRUENING: The fact that it is a home loan as
24 opposed to say participating by the bank. Which factor is
25 important?

1 MR. MURKOWSKI: There is no relationship. The real
2 estate loan stands on its own. You've got guidelines and you
3 loan a percentage to the value, you know what the value is and
4 you look to the credit worthiness of the borrower. If he's got
5 the income to pay for the loan, why, theoretically, he gets the
6 loan.

7 MR. GRUENING: Why couldn't the same kind of criteria
8 apply to any business loan.

9 MR. MURKOWSKI: Well, first of all, any kind of
10 business loan doesn't fall into value. Usually the individual
11 wants to start a business. He's an unknown entity. He has no
12 operating experience. These are the usual type of loans that
13 come into the State. He wants to borrow for the collateral, he
14 has no equity. He might have a great idea.

15 MR. GALLAGHER: I'd like to throw a little light on
16 this subject. When I was in the banking system, we reviewed
17 our reserve for bad debts and 89 percent of our charge offs
18 were commercial loans, 2 percent in real estate, and 9 percent
19 were in installment loans.

20 MR. SCOTT: That says it all.

21 MR. GALLAGHER: We took all of our losses in commercial
22 loans..

23 MR. MURKOWSKI: There is no politics in the Veterans
24 program.

25 MR. SCOTT: I agree.

1 MR. GRUENING: I am interested in why you cannot
2 insulate some of the politics from the business loan situation?
3 You say there are no politics in the banks ---

4 MR. MURKOWSKI: Well, it's a different type of
5 politics. The banker is going to go broke or he is going to
6 eat his bad loans, but with the government it doesn't work that
7 way.

8 MR. GRUENING: My question is, can't we make the
9 people that are administering it responsible?

10 MR. MURKOWSKI: I think the people are responsible,
11 it's the pressures they get. I think that the individuals, the
12 Commissioners that are here would agree with me up to a point.
13 There are several State loan programs in various departments.
14 There has been a coordination in the last few years to get them
15 together and they are getting together. Loaning money is just
16 that, you need some real expertise. And, if you're making a
17 secured type loan, there is a certain application of rules and
18 regulations, that's one thing. But when you get out in the area
19 of making a credit judgment where you don't have those sound rules
20 to utilize, you've got, say, a new business, you've got to have
21 somebody who has had some experience. And that's fine, you can
22 get that theoretically but then you've got the legislator and
23 I've seen it happen time and time again where you've got the
24 constituent working on him. He's got a million things to do and
25 one of them is not to evaluate that guy's loan. So he says,

1 "Well, you ought to talk to Joe Blow who is the director of that
2 program" and he goes down and he says, "If there is anything you
3 can do for Joe Blow" -- that's when the pressure starts and it
4 really can develop. And, if you can figure out how to insulate
5 it from politics, more power to you.

6 MR. GRUENING: I am asking for your suggestions.

7 MR. MURKOWSKI: I have no suggestions. I don't think
8 it will work.

9 MR. MOTLEY: As administrator of 9 of the 11 programs
10 you are talking about, I would like to discuss the matter with
11 you.

12 The Veterans Loan program as of the first of this year
13 had a delinquency of less than 2 percent. The average for all
14 the State banks, including your bank, is 3.25 percent, 31 days
15 or more. So I think that stands on itself there. In regard to
16 the business loans, I don't think you are entirely correct when
17 you say there is no collateral. I think all of the statutes
18 affecting all of the business loan programs except one which is
19 the new one of child care centers, requires collateral. What
20 you say is correct, it can happen in the way you have talked.
21 We inherited two loan programs from your old department, long
22 after you left. One of them was the Alaska State Development
23 Corporation. Those loans were loans that were made, you may
24 recall, that were bought from banks. They had 16 out of 21 loans
25 delinquent. The Small Business Development Corporation had 18

1 out of 21. Today there are 3. I submit to you that it can be
2 run. You use the same test that banks use and that is a good
3 underwriting procedure. You can insulate them from the political
4 system. I think the record is there for it. I agree with you
5 that the risk is there, the political risk of legislators and
6 administration, but I think it can be overcome.

7 MR. MURKOWSKI: The Alaska Development Corporation
8 hasn't functioned other than in a cleanup capacity.

9 MR. MOTLEY: That is a fulltime job, that cleanup.

10 MR. MURKOWSKI: So that has been the basic utilization
11 of that office, it hasn't been functioning so far as taking on
12 new loans.

13 MR. MOTLEY: That's right, just cleaning up the bad
14 ones that were bought from the banks.

15 MR. MURKOWSKI: That is absolutely correct, there's no
16 question about it. It was a bail-out for the banks.

17 MR. WOHLFORTH: Mr. Waldock.

18 MR. WALDOCK: I would like to direct my question to Mr.
19 Dickey here. Rather than to reinvent a new wheel as far as a
20 vehicle to handle out Permanent Fund, I would like to know if you
21 would give your comments or the comments of the Chamber of
22 Commerce in regard to the use of the vehicle that Frank Murkowski
23 was talking about and that is the Alaska State Development
24 Corporation. Realizing there are a few pitfalls with it, could
25 you also comment about any safeguards that might be put in there

1 to beef that thing up?

2 MR. MURKOWSKI: Mr. Motley, I think that is under your
3 department now.

4 MR. MOTLEY: The suggestion you had I think is an
5 excellent one. I think if you had the banks in there with you
6 then everybody has something at stake and you have two under-
7 writing criteria.

8 MR. MURKOWSKI: If you keep the banks in enough and
9 don't let them off with 5 or 10 percent. That program that
10 Dennis is referring to, Tony, I think you will agree has a real
11 application. It just hasn't been used because its been of real
12 concern. Eric, I think you were involved.

13 MR. WOHLFORTH: I am aware of the Alaska State
14 Development Corporation experience, which I don't think is as
15 bad, frankly, that a lot of people, maybe the public has in mind.
16 Back in '63 when it was started it did finance tourist
17 facilities and other things that were needed and might not have
18 gone forth. There was no question they took out some bad paper.
19 And I think the point of a higher degree of private participation
20 is absolutely the key to any reinstatement of that kind of
21 vehicle.

22 MR. DICKEY: I might mention we worked about two years
23 to get that first program through. Its intent was perfect, its
24 performance was not. To respond to Mr. Murkowski's suggestion,
25 I think one of the reasons there was too small involvement with

1 the private banking institutions. A greater partnership, I think
2 they wouldn't walk away from it, they would be quite interested
3 in how the thing turned out.

4 MR. LOVE: Mr. Murkowski, you said one of the benefits
5 of having banks make the loans rather than having government
6 make the loans is the bank has to take the loss.

7 MR. MURKOWSKI: Rather than the public.

8 MR. LOVE: But if the State gets into the business of
9 guaranteeing loans that the banks make, doesn't, in fact, the
10 bank make loans that the public takes a loss?

11 MR. MURKOWSKI: Well, as Mr. Motley indicated, if the
12 bank has a substantial participation percentage, why, obviously
13 the bank is going to spend a great deal more time analyzing the
14 risk than if it had a 100 percent guarantee.

15 MR. LOVE: Say a 80 percent guarantee. My point is,
16 the more the government gets involved in these loan programs, the
17 less the bank has a stake in it. It seems to me --- You would
18 normally have just a free market situation and I am just, you
19 know ---

20 MR. MURKOWSKI: What I am suggesting to you is the
21 question -- just on specific program -- loan programs, is it the
22 best interest of all concerned that the State go into the direct
23 lending programs or utilize the expertise that exist in the
24 private sector by putting certain stipulations on the percentage
25 of participation required by the banks, and then does the State

1 come in and utilize its principal put into this or does it
2 guarantee a specific portion. You get the best of both worlds
3 under the guarantee concept because you haven't used the principal.

4 MR. LOVE: So you think the primary benefit of
5 channeling loans through banks is because banks are -- the
6 primary benefits is because banks can better assess risks. That
7 would be the primary goal.

8 MR. SCOTT: You are utilizing existing expertise.

9 MR. GALLAGHER: It seems like there are a whole lot of
10 goals for the Permanent Fund. I know that the banks may be the
11 best people to assess risks, but it seems like there are other
12 goals we are going to have -- social goals. The point is, the
13 strength of dealing with the banks is evaluating the area of risk
14 by requiring bank participation. And you develop some integrity
15 in the process.

16 MR. MURKOWSKI: I agree with you. But I would say that
17 the area that banks generally fall into, which is the small, or
18 short term loan, they have the expertise to continue in that area.
19 If you are talking about providing some of the resource
20 development that we need, I think this is where the State steps
21 in. As the example I have given, a cement plant, the State has a
22 vehicle through its guaranteed program, the agricultural ---

23 MR. MOTLEY: Large single loans.

24 MR. MURKOWSKI: Large single. The tremendous impacts
25 on the State is where I see the Permanent Fund having a tremendous

1 application.. I don't think the State would have to use the
2 principal in the Permanent Fund, the State could use the
3 guaranteed concept of the Permanent Fund.

4 MR. MOTLEY: For large loans.

5 MR. SCOTT: As an aside, while it is almost certain, if
6 not extremely probable, that any loan that is made within the
7 State will have social impact. And the extent that it creates a
8 better economy and new jobs, that social impact will be good
9 under all the other guidelines that we go by. I don't believe
10 that the social impact should be the prime consideration on a
11 loan made from the Permanent Fund, or anybody else.

12 MR. LOVE: Do you think (inaudible) should be the
13 principal goal of the Permanent Fund of do you think that we
14 should look as principal goals as standards of the quality of
15 life and whether or not certain types of development are
16 necessarily good. I just wondered which direction we should
17 work for?

18 MR. SCOTT: Why can't we have both?

19 MR. LOVE: Will you agree that our goals are going to
20 be quality of life first and then we're going to look towards ---

21 MR. SCOTT: Every goal I ever had in my life was
22 toward the bettering of the quality of my life and in the
23 process of everybody else's that I dealt with.

24 MR. LOVE: The reason I bring this up, it seems to me
25 there are going to be times when these can be best achieved

1 through increased economic growth and times when it would
2 adversely affect these.

3 MR. SCOTT: That to me has to be the Legislature's
4 decision and not the administrators of a loan program. Separate
5 the two. I think the two are separable and don't directly affect
6 one another except incidentally. You're talking about different
7 policies. We're talking about policies of investing and loaning
8 and regenerating from the existing Permanent Fund. I don't think
9 we're talking about trying to mix that in with social
10 legislation or social goals of the State. They deserve attention
11 but ---

12 MR. LOVE: I certainly agree that the legislators
13 should be the people who provide the basic framework. Should we
14 take a look at how the investment policies affect concentration
15 of wealth and this sort of thing?

16 MR. SCOTT: I don't understand your question.

17 MR. LOVE: My question is, should we look in terms of
18 who benefits the most economically by the investment, how is the
19 wealth concentrated, who approves of the actual benefits,
20 whether it is sub groups of society and that sort of thing.

21 MR. MURKOWSKI: Motherhood, everybody is in favor of
22 that. I'm in favor of a cement plant because it's going to lower
23 the cost of living in the State of Alaska ultimately.

24 MR. FREER: You made several remarks about I guess you
25 call it an anti fail-safe mechanism. In case the Permanent Fund

1 started to get off track there would be some mechanism for
2 calling a halt. This may be looking down the road quite a few
3 years, but there might come a time when the Fund doesn't need
4 any more. It might be drawing off revenue from the State which
5 would be better used for something else than going into a
6 Permanent Fund. Is that something that you might have had in
7 mind?

8 MR. SCOTT: That is inherent in -- when I'm speaking
9 of the sunset situation. We know of funds, of course, in other
10 States where there was no provision for some ultimate
11 termination and the fund continued to grow and nobody wanted it
12 any more.

13 MR. FREER: That is inherent in what you were saying.

14 MR. SCOTT: I think you have to have the ability to
15 stop it or modify it at a given point.

16 MR. WOHLFORD: Any more questions?

17 MR. EDENSO: I think this is directed at Mr. Murkowski.
18 You were talking about loans and such, like business loans, any
19 different kind of loan program the State may have. We are aware,
20 at least I am, I have had some experience with State loan
21 programs. We do have fixed interest rates an allowable range of
22 interest rates and allowable terms. I wonder if you could
23 address yourself to what you think might be reasonable terms, for
24 example, a small loan program, whether it should have 10 years or
25 20 years, or 5 years, or whether or not it should have a fixed

1 interest rate, which we do now, 8 percent; or should the interest
2 rate be tied to some kind of market rate of interest or that
3 kind of thing? Terms, years, dollar amounts, ceilings, 100,000,
4 200,000, and interest rates, whether it should be tied to a
5 market rate of interest.

6 MR. MURKOWSKI: Well, I can't necessarily come up with
7 a blanket suggestion. I would comment with the application that
8 obviously the borrower needs 10 years instead of 5. If he can't
9 make it on 5, well, then realistically he's got to have 10. It
10 is different in each particular case. The longer you put it out
11 the more risk you have in subsidizing interest rates. I think
12 there was a time when the Veterans Loan Fund was 7 percent when
13 the price of money was greatly in excess of that. The State was
14 effectively subsidizing the cost of money. Is that in the best
15 interest of the State? I don't think it is.

16 MR. EDENSO: Probably what I am asking is, how much of
17 a subsidy do you think would be reasonable in your small business
18 loan program?

19 MR. MURKOWSKI: Well, obviously, from the private
20 sector, I don't like the word subsidy because of what it implies.
21 I don't think that the State loan programs per se should be
22 subsidy programs from the standpoint of the application of the
23 word subsidy.

24 MR. EDENSO: Mr. Murkowski, there is a hidden question
25 in there and it is, if we tie it to a market rate of interest

1 which is what the banks very nearly do in this State, and we are,
2 in fact, in danger of competing with the banks, commercial banks,
3 in their area of activity, which is to provide the business
4 community with business loans and with market money. If you get
5 into that, and, again, we're talking about a potential
6 competitive stance that a portion of a Permanent Fund may or may
7 not have with the banking community. I believe you, as a banker,
8 may have some specific ideas on that.

9 MR. MURKOWSKI: I think you have got to establish the
10 priority that the Permanent Fund is going to apply itself to.
11 How broad you want to get, if and when, or, if you get into a
12 loan program on an expanded basis. And then, realistically, how
13 you evaluate the services of the private sector as it serves the
14 public in its loan needs. And should you only come into those
15 areas that the private sector can't serve adequately. And who
16 makes the decision whether the private sector is serving the
17 public adequately. Obviously, if the individual comes to the
18 private sector and is rejected because of the risk, he's going
19 to go to the public sector and say, "We need more service from
20 the public sector because the private sector isn't servicing our
21 needs". And the public sector is going to respond because its
22 obligation is to respond to the public. But then if the public
23 sector theoretically makes that loan that is high risk and it
24 goes sour, the taxpayer pays for it. So you get into evaluations
25 here and judgments that you're going to working at for a long

1 time.

2 MR. EDENSO: I don't wish to argue with you but you
3 also mentioned credit worthiness in your testimony, and credit
4 worthiness, I am sure we all know, is one of the things
5 taken into consideration in looking at a potential loan. Mr.
6 Motley, I am sure, has had some experience with the State business
7 loan program, credit worthiness. And we know that these, in the
8 public sector, are designed for receiving high capital risk types
9 of services. However, under the proposed Permanent Fund we have
10 no designated area there the thing would be housed right now.
11 Is that something that you have in the back of your mind or, as
12 a banker, do you see the Permanent Fund providing high capital
13 risk venture capital money to businessmen in this State, or
14 through the banks to businessmen in this State?

15 MR. MURKOWSKI: I would have to decline to comment
16 directly on that. How do you evaluate when something passes from
17 high risk to reasonable credit. High risk, you're pretty darn'd
18 sure you're going to take a loss.

19 MR. EDENSO: I am sure there are standards for
20 comparison. At looking at other loan programs in the Lower 48,
21 you do have venture capital firms that do this all the time.

22 MR. MURKOWSKI: But the rates they take are excessive.

23 MR. EDENSO: Exactly. You do have a high capital cost
24 involved with venture capital. Those who are willing to loan in
25 the venture capital area are also looking for a high return on

1 their investment.

2 MR. MURKOWSKI: Some of them take an equity position too.

3 MR. EDENSO: On the opposite side of the coin, or on
4 the other side of the coin, you do have stable businesses that go
5 belly up. Part of it we know has to do with management. However,
6 again, we do look at venture capital type loans in the
7 Permanent Fund -- will this be in direct competition with, or do
8 you see it co-venturing with banks as well. In other words, are
9 banks going to step into a venture capital on a partnership basis
10 with the Permanent Fund?

11 MR. MURKOWSKI: I don't know. I can't give you a
12 definitive answer.

13 MR. EDENSO: I have one other question. Would it be a
14 consideration for the Permanent Fund on a loan policy to loan
15 directly to a borrower, bypassing the banks entirely? How do you
16 view that. Again, that is leaning more toward a competitive
17 attitude with the banks. For example, in a very large size loan,
18 such as 10 million dollars or, say, 5 million dollars, for 20 or
19 15 years, something of that nature, you know, whatever interest
20 rate you might want to select. Do you see a problem with that?

21 MR. MURKOWSKI: Yes, I do, very definitely. I see a
22 problem in the concept of the State developing a huge, gigantic
23 overall, total-encompassing series of loan programs. If they get
24 into that, they might as well buy out the banks. Theoretically,
25 at least, they have the capital in the Permanent Fund to do so

1 and run a gigantic State bank. The we're just one step away from
2 a welfare state then. You'd never be able to control the
3 politics in it. I would suggest that you look hard and long at
4 your loan programs because the problem is administrations change.
5 State loan programs change with administrations. I think this
6 particular administration has done an outstanding job with the
7 loan programs they have.

8 MR. EDENSO: One of the purposes of my question is that
9 we do have a very rapidly growing influence or segment in the
10 business community in Alaska with 12 Native regional corporations,
11 who have potentially a very high need or desire for capital. And
12 they want to, in fact, use the credit, or somebody else's money,
13 to the maximum extent possible to substantially influence their
14 income opportunities. Suppose they do express a strong desire
15 to participate in a Permanent Fund, would you see the banks as
16 well participating in this kind of a development activity or
17 lending activity?

18 MR. MURKOWSKI: The experience, I think, that most of
19 the banks have had with the Native regional corporations is their
20 effort to acquire whatever their particular interest is. They
21 are in a position to put in an equity contribution that makes the
22 long-term financing available for whatever they have in mind. So
23 I don't think they really, at least at this point, have a problem
24 as far as securing the private sector long-term funds.

25 MR. EDENSO: I am not referring to a problem. I am just

1 wondering if there is an existing vehicle, or there may be a
2 problem at some point in time with that.

3 MR. WOHLFORTH: Part of the work session this
4 afternoon deals with the structure of the Board or whatever it is
5 that administers the Fund. I am wondering if any of the three
6 of you would care to comment, at least tentatively, on how you
7 would like to see such a Board structured. I am thinking, if
8 you want appointments subject to the approval of a governor?

9 MR. KERTTULA: I wonder if I could interject something.
10 This is more of a comment, Frank. If you are going to use a
11 banking mechanism for screening short term or intermediate loans,
12 you have to have a number of fail-safes. And the State has had
13 a very bad, unfortunate relationship over the years with you
14 fellows. Three come to mind. The hundred million wasn't
15 much invested in the State to begin with and we got some pretty
16 substantial "too bad, little boy" comments from fellows of such
17 substance as the president of the First National. Two, we were
18 foolishly using you fellows as a mechanism for investment on
19 Wall Street in the equities, you lost millions for us and showed
20 no great interest in getting yourselves up at 3:00 or 4:00 in
21 the morning and getting on that Street early. And, three, you
22 destroyed the State Development Bank, which was an interesting
23 mechanism, which we would have put a hundred or two hundred
24 million dollars into when we have the nine hundred million, if
25 you hadn't mishandled that. Bailed out some bad loans. And the

1 banks did finally come and pick up, some of you didn't, because
2 of political and other pressures. We haven't had a good
3 relationship with the banking community for these reasons.
4 We're going to have to build some fail-safes into any programs
5 we use. One, that you can't use existing loans on your books
6 that aren't going good. Two, that as of the date of your request
7 for any facility for the loans, none of those have been before
8 you before. We've had a lot of bad relationships with the
9 banking community where they're going to have to roll a peanut
10 with their nose for a long time to overcome. Now, I favor ---

11 MR. SCOTT: We are not here representing the banks.

12 MR. KERTTULA: Now, I made a position, and I think
13 these should be remade. You're going to have to develop some
14 substantive method of showing us that we're not going to get
15 screwed a fourth time by dealing with you fellows. There's
16 a happy possibility of your using your screening expertise, of
17 your willing to put up substantial amounts of money to
18 correspond with the State's investments. All those things will
19 help. We've had some pretty bitter experiences with you guys.

20 MR. MURKOWSKI: I think those of you who are familiar
21 with the times of sale of the stocks that the State had acquired,
22 the market was at an all-time low. If we had sold those stock
23 within the last three months, we would have made a handsome
24 profit. You go into the market and you take your chances.
25 I obviously take issue with the generalization that the banks

1 lost the State money under the table or above the table or
2 whatever. It was a matter of when they sold.

3 MR. KERTTULA: But we couldn't get them to actively
4 participate on the Street on the method that had been suggested.
5 We couldn't get them to get in there early in the morning.
6 They were late on the Street. Those little suggestions found
7 no adherence to.

8 MR. MURKOWSKI: I assure you they were working. It was
9 a matter that the market went down. Maybe there was some poor
10 advice on some of the stocks that were purchased. By the same
11 token, those same stocks did come back. Be it as it may, the
12 decision was made to sell, and they sold, and they sold at the
13 bottom of the market and there was a loss.

14 MR. KERTTULA: That was a political decision, I suppose.

15 MR. MURKOWSKI: If it had been hung out for another
16 six months or another year, it would have worked. Anyway, I
17 agree with you. We've got a situation now where we've got a
18 Permanent Fund, the question is, how do we work together to make
19 it work. And a fail-safe system has got to be in there. It
20 wasn't obviously in the Alaska State Development program. That
21 did some good things but there was provisions where banks came
22 in and got bailed out of bad loans and it is my testimony that
23 that is wrong and shouldn't happen again.

24 MR. MOTLEY: I think I see some common ground between
25 the Senator and Mr. Murkowski, and that is in the area of

1 participation in loans. If everybody has enough into the game,
2 everybody scrutinizing the underwriter, I think there is merit
3 in pursuing the guarantee. Candidly, I don't like guarantees
4 because I think you have the lower end of the level of your
5 underwriting criteria. But, if structured right, I think you
6 can keep the underwriter criteria up there.

7 MR. WOHLFORTH: I really wonder at the productivity
8 of reliving some of these things. If one looks at them, maybe
9 there is a whole range of judgments and institutional factors
10 that weren't what they should be. But we are trying to go
11 forward and look forward. What sort of structure do you see as
12 appropriate for the institution, corporation, whatever it is
13 called now. The range of structures are as many as one can
14 think of. Directly voted by the people is one. Secondly,
15 appointed by the governor and confirmed by the Legislature for a
16 fixed term, nonremovable except for gross dereliction of duty.
17 No. 3, appointed to serve at the pleasure of the governor, which
18 is the composition of most of our State boards and agencies, I
19 think with the sole exception of the Board of Regents and maybe
20 the Utility Commission. Have you given any thought to this? Do
21 you want to comment on it. It is also, I might say, the
22 subject of discussion this afternoon.

23 MR. DICKEY: It was, of course, passed on Tuesday.
24 We have spent two days discussing that and arriving at the same
25 philosophy that you have that, yes, it is a problem and it is

1 very important. We would like to reserve the right to come back
2 and specifically address that. I think it is a key to this thing.
3 We don't want to duck it at all. We want to come back in more
4 detail. We appreciate the opportunity to be here and I would say
5 at least the majority of the Committee was friendly -- all. We
6 hope some of the suggestions will be of value. I am sure groups
7 such as the Native corporations, the banking, and savings and
8 loans groups, conservation groups, other consumer groups will
9 come before you, as they should. I think that was one of the
10 commendable things on the capital relocation, regardless of what
11 you voted, at least the public was heard. And I think this
12 Committee is starting out on that step and I commend you.

13 MR. WOHLFORTH: Thank you. I wonder how many more in
14 the room this morning desire to testify. Three more.

15 MS. FLEISCHER: I am really looking for some
16 information. I don't really understand the dividing line on
17 subsidy. Isn't guaranteeing loans, say for a high risk cement
18 industry with public money a form of subsidy? Or, if we use
19 public money or bonds to build roads or hydroelectric plants, to
20 help the mining, manufacturing industry, isn't that a form of
21 subsidy? Or do you see that as a different kind of subsidy?

22 MR. MURKOWSKI: It's an interpretation obviously. If
23 the mine can't be developed without it and then the road is built
24 theoretically to open the mine, it provides jobs, it provides a
25 tax base for the State and so forth. So it is returned,

1 theoretically.

2 MS. FLEISCHER: Theoretically, wouldn't there also be a
3 return, say, on other forms of subsidies?

4 MR. MURKOWSKI: Yes.

5 MR. SCOTT: You can build a return into any program. A
6 guaranteed program could provide a percentage rate in exchange
7 for the guarantee. It doesn't have to be a loan of money to
8 justify a rate of return.

9 DR. LOGSDON: I don't know how many high risk loans
10 the banks make, but do the banks participate in equity in high
11 risk loans?

12 MR. MURKOWSKI: No. Prohibited by law. In Canada
13 banks can do it and in most foreign countries.

14 DR. LOGSDON: Do you see this as a possibility for a
15 loan fund on long term high risk?

16 MR. MURKOWSKI: With the State taking an equity? Not
17 in the overall application. A road to a mine, that is an equity
18 in that the State put the road in, it's for the public benefit.

19 I would like to just clarify for the record, in case
20 anybody misunderstood my intent. I am harping to some extent on
21 the pitfalls of broad, general loan programs. I think this
22 administration particularly has done more to funnel, coordinate
23 and get control of them. I think Tony agrees. Spent a lot of
24 time cleaning up the debris from other administrations and has
25 done an outstanding job of it. As far as the Alaska State

1 Development Corporation, I am not here to defend it or condemn
2 it but the point that it didn't work in the concept that it was
3 designed to do but it did do some good things. I wasn't in
4 politics at that particular time.

5 MR. WOHLFORTH: Gentlemen, we certainly appreciate your
6 participation. Mr. Smith, Central Alaska Utilities.

7 MR. SMITH: Mr. Chairman and members of the Committee.
8 I would like to represent, in effect, a program that we took to
9 the Legislature in 1974 and again in 1975, in support of a fund
10 to create a source of long term financing for public utilities
11 operating in the State of Alaska. It might be somewhat
12 redundant but the argument is still entirely valid. In the
13 presentation that we made before Senator Kerttula's Commerce
14 Committee supporting Senate Bill 116, the testimony was given
15 in April of 1975. The bill was well received, it did not go
16 forward, however, in the press of other business. In fact, I
17 presume that there was inadequate funding available to do much
18 with it.

19 I represent two entities. My name is Robert Smith,
20 I am president and general manager of Central Alaska Utilities,
21 a water utility supplying the suburban area in Anchorage. We
22 have roughly 9,000 customers, we are serving a population in
23 excess of 30,000 people in the Anchorage area. I am also
24 president of the Alaska Utilities Association, which is an
25 association of regulated utilities throughout Alaska consisting

1 not only of water utilities but gas, telephone, electric, refuse
2 and various other utilities that are regulated by the Alaska
3 Public Utilities Commission, of which there are some 143
4 different utilities. Now, of those 143, 33 are public or
5 government owned such as municipal utilities. 95 are investor-
6 owned utilities. And 15 are quasi-public or co-ops. All of
7 which then represent and serve people entirely within the State
8 of Alaska.

9 In the interest of saving time, I will just highlight
10 the presentation that I gave before Senator Kerttula's
11 committee and would certainly be happy to answer any questions.
12 The Alaska Utilities Association, as such, does not represent
13 or have membership of all of the regulated utilities, many of
14 which are quite small, some of them fairly substantial. But of
15 the 18 member utilities, some 55 to 65,000 people are actually
16 being served or are represented by those utilities.

17 One primary difficulty that we all have faced
18 characteristically over the years, and this is a national problem,
19 not just in the State of Alaska, but the utilities have a great
20 deal of difficulty in obtaining long range financing for the
21 development of their facilities. Primarily, facilities such as
22 reservoirs, transmission lines, extensions to serve new areas
23 and source facilities such as wells and treatment plants. It is
24 not apparently to the banking community or the financing
25 community an attractive investment. However, the utilities are

1 one of the most stable operations anywhere in the country. Our
2 product is absolutely essential to the maintenance of life and
3 health. A community cannot grow, expand, or really even exist
4 without the use of those utilities. Our customers are not
5 subject to the vagrancies of inflation, particularly in a
6 transient economy. Once the people are being served, if the
7 community, unless it is abandoned, continues to use our service
8 on pretty much of a level. And the great difficulty that we
9 find is we build an installation that has a life from anywhere
10 from 10 to 50 years, the 10 year would be a mechanical portion
11 of the system. 30 to 50 years is the normal life of pipelines,
12 reservoirs and the type of installations that we need to
13 distribute our product.

14 Our problem has been we are virtually unable on the
15 public financing market to obtain financing in excess of 7 to 10
16 years. The lending agencies just are not interested in that
17 type of an institution or business. I think possibly because it
18 is a low risk, low return type of operation, this has had some
19 effect on obtaining long range financing. But generally we have
20 had to operate on a long range improvement with very short range
21 financing which puts an extremely severe burden on the utility.
22 And the customers, in turn, either have to pay the higher cost
23 or do without the service. We are in the process now of
24 constructing two reservoirs in our own system, without which the
25 area that we serve would have substandard fire protection, as an

1 example. We can provide the water necessary just to keep the
2 system going without those reservoirs. But by providing the
3 reservoirs, we offer a substantial benefit to the areas plus a
4 degree of fire protection that we feel the customers are
5 entitled to. If we can't finance them, we can't build them, it's
6 just as simple as that.

7 We are also anxious that a program be established to
8 set up a fund whereby those utilities that are regulated, or are
9 designated as public utilities, all of which are regulated by
10 the Alaska Public Utilities Commission, would have a source of
11 financing available to them at a long range reasonable rate of
12 interest. We are not asking for a grant program. I don't believe
13 in it. I have operated both in the private sector and the
14 public sector for many years professionally in this capacity.
15 I don't believe in a grant program per se in this particular
16 situation where there is a possibility of return. We feel that
17 such a fund, if established, would be self-sustaining, it would
18 have an earning power. And we are willing to provide that
19 earning power on the base of our business operation. Now, our
20 suggestion is, and it is not a critical or a magic figure, that
21 a revolving fund maintained in the order of 10 million dollars
22 would probably be adequate, at least for the time being, with
23 the sounding that we got through various utilities. There could
24 be a restriction as to the amount of funding provided to any
25 given utility in any given year. This is no problem. It should,

1 however, have the basic criteria that, provided it is a proposition
2 of reasonable risk, that long term financing be available, in
3 excess desirably of 15 years, hopefully, in the order of 20, 25
4 or even 30-year financing.

5 The problem is, if we go out to build an improvement
6 that has a 30 to 50 year life, it's depreciated on that basis.
7 We depreciate our system essentially on a 33 year life. If we
8 have to fund it and pay the funding off, pay the loan off in a
9 5 to 7 year period, it is a severe burden on the utility. The
10 cash flow has to be generated and the only place that that can be
11 generated is from the customers. This is set up in the rates
12 and the customers obviously have to pay the bill and it puts a
13 burden on them, or they don't get the service.

14 I do have copies of the testimony that was given
15 before the Committee, which I believe explains the situation and
16 I would be happy to leave those with the Committee. We have
17 several letters that we received from members of the Association
18 regarding their feelings concerning such a Permanent Fund and
19 their anticipated use of such a fund. We have letters from
20 the Light & Power Company, Kenai Utility Service Corporation,
21 immediately available. All of whom have expressed sincere
22 interest in the funding. We have had verbal expression from many
23 of the members of the Association along this same line. I also
24 have a copy of the bill that was introduced, Senate Bill 116
25 together with letters that we have sent to legislators outlining

1 the problem, expressing our feelings as to the need for this
2 kind of program. And a letter of information also that was
3 sent to the Alaska Utilities Association membership detailing
4 what we are trying to do and soliciting their support.

5 I have just touched on why that fund is necessary.
6 We feel it is necessary. We feel it is a good risk. Money that
7 will be spent entirely within the State of Alaska and the
8 benefits would be entirely for Alaskans. We are asking for a
9 program in which monies would be borrowed and they would be
10 repaid with interest. The key to the whole situation is that we
11 need a vehicle whereby funding is made available to utilities
12 which are vital to the existence economy, health and happiness
13 to the people of the State of Alaska and which are essentially
14 not now available. That is essentially our pitch for this
15 program.

16 MR. GALLAGHER: Is it not true, Mr. Smith, that with
17 the existence of the public utility any subsidy, I am thinking
18 in terms of interest rate, does get passed onto the consumer
19 through the rate making process?

20 MR. SMITH: That's correct.

21 MR. GALLAGHER: Both for the private and the public
22 utility.

23 MR. SMITH: Absolutely correct. The cost of doing
24 business is paid for by the customer whether it is in a
25 department store or a utility company.

1 MR. LOVE: As I understand, you want long term loans.

2 MR. SMITH: Long term loans with a reasonable rate of
3 interest is what we are suggesting.

4 MR. LOVE: What is reasonable rate of interest?

5 MR. SMITH: 3 percent, 9 percent I believe is the
6 ceiling on the existing funds now.

7 MR. LOVE: As I understand it, the basic problem in
8 financing utilities isn't the problem of the interest rates, it's
9 the problem, it is securing a long term loan.

10 MR. SMITH: The key problem is the term, not the
11 interest rate. Obviously, the higher the interest, the more the
12 customer has to pay for the money and the service. However,
13 that is not as big a problem, it can be overcome and still
14 operate within a reasonable area provided we can get the term.

15 MR. LOVE: If the State gets in the area of making
16 loans to utilities, do you think that would raise the question
17 of whether or not the Permanent Fund be used to promote public
18 ownership of utilities?

19 MR. SMITH: I think they are two and completely distinct
20 areas. I really don't think that one has any bearing on the
21 other. I have spent about 12 years operating public utilities,
22 City Engineer, and Public Works Director, and I have during the
23 entire period of time always felt that private industries supply
24 whatever services they can feasibly and government only then
25 should supply those that cannot be done privately. In answer

1 to your question, I think they are two separate areas. I think it
2 should stand on its own merits as a good business investment.

3 MR. WALDOCK: Mr. Smith, if the Permanent Fund should
4 find that investing in the utilities is a prudent investment,
5 what kind of return could we expect on our money?

6 MR. SMITH: In terms of an interest rate?

7 MR. WALDOCK: Yes.

8 MR. SMITH: Well, that obviously is going to be up to
9 the Legislature to decide. I believe interest rates on the
10 existing funds are in the order of 8 to 9 percent.

11 MR. WALDOCK: 8 to 9 percent.

12 MR. SMITH: Those exist now, I understand.

13 MR. GALLAGHER: If we go back over a period of time,
14 we will see that in 1951 long term low interest was in terms of
15 3 to 4 percent. And if you look at the inflation rate in that
16 period of time, it would be maybe 1 percent. Then go back to the
17 late middle '50's you will find that long term low interest was
18 in the terms of 5 to 6 percent. In that period of time,
19 inflation was 3 percent. Today inflation may be 7 percent long
20 term. And that is why rates of 8 and 9 percent -- again, it's
21 really an adjustment on the rate of inflation and not -- economics
22 haven't changed since then.

23 MR. SMITH: Yes, I agree.

24 MR. WOHLFORTH: Is there a question of whether or not
25 it should be market rate, is that what you are essentially saying?

1 MR. SMITH: Well, that isn't really our question. Yes,
2 I feel it should be somewhere related to market rate, yes,
3 absolutely. I don't feel that it is our position to attempt to
4 set the rate, however. And this is why I phrased it a reasonable
5 rate of interest, because I think it should be. I honestly do.

6 DR. LOGSDON: If I understand you correctly, are you
7 suggesting that the Permanent Fund should be subdivided into
8 categories? I notice that you have talked in terms of 10 million
9 dollars as a separate fund within the Permanent Fund.

10 MR. SMITH: I would for the particular reason that --
11 possibly it is somewhat selfish, but I think it was also
12 mentioned by Mr. Murkowski in his testimony, it does designate
13 a particular area with a particular level of financing so that
14 the utilities have some means of planning and programming and
15 also the State does too. They know what areas they are working
16 in and with what amounts and are not in a position jockeying, say
17 for example, the fisheries over the same funding to see who gets
18 there first. So I would like to see it designated at a particular
19 level or a particular fund for that specific use, and that is the
20 use of utilities. I am not trying to relegate this to just water
21 utilities or just investor owned water utilities or whatever.
22 Although I think that would be the heavier use since municipal
23 utilities do have the availability of bond funds that we don't
24 have. But I would like to see it designated as a particular
25 fund, yes.

1 MR. MOTLEY: Just a recap. Is the main resistance in
2 the private sector in raising money coming from the term, the
3 length of the term as opposed to the interest rate?

4 MR. SMITH: Basically, that's true. That's absolutely
5 correct.

6 MR. MOTLEY: Mr. Chairman, I must tell you I find it
7 most refreshing that Mr. Smith thinks 8 or 9 percent is a
8 reasonable interest rate. Other groups that we deal with on
9 occasion believe 2 or 3 to be reasonable.

10 MR. SMITH: I would certainly accept a rate of 2 or 3
11 percent. But that is not really why I am here because I don't
12 think it is realistic.

13 MR. LOVE: How would utilities look at loans from the
14 Permanent Fund with an interest rate that would be readjusted
15 every five years?

16 MR. SMITH: I don't think that would be really
17 unreasonable, although I think it would be somewhat unusual.

18 MR. LOVE: I know they are doing that with home
19 mortgages.

20 MR. SMITH: Yes, and we have considered it on that
21 basis. Again, our primary difficulty is the term rather than
22 the interest. Because the interest rate is an element that is
23 easy to identify and it is an ongoing expense and one that can be
24 readily incorporated in the rate base. I don't think that is
25 entirely unreasonable, if it can be set up on a workable basis.

1 MR. LOVE: The problem of financing utilities, is it a
2 rural problem, an urban problem, or a Statewide problem?

3 MR. SMITH: I think it is a national problem. I
4 belong to a national association of investor-owned water
5 utilities and that seems to be the trend of it regardless of
6 the size of the utility. American Water Company, General Water
7 Company, Central Alaska Utilities, Eagle River Utilities, they
8 all seem to have that common problem of lack of available
9 funding.

10 MR. LOVE: Are most of the investor utilities in
11 urban areas in Alaska?

12 MR. SMITH: In Alaska? I can't really speak for that
13 entirely. I presume largely that is true although there is
14 probably a large scattering of small utilities that are serving
15 suburban or rural areas simply because there is nobody else
16 there to do it. I would say we are probably far and away the
17 largest investor-owned water utility in the State and probably
18 the third largest water utility as such that operate in a
19 suburban area.

20 MR. GALLACHER: What is your own capital need?

21 MR. SMITH: Roughly a million dollars a year. It goes
22 out very easily and very fast. The water comes free, we've been
23 accused of selling a commodity we get for nothing and we have
24 offered as a counter to that that anybody who wants to come to the
25 well with their own bucket, we'll supply them free water. Two